February 1, 2007

Kathy Michels
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U.S.-China Economic and Security Review Commission
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RE: Written Comments for USCC Hearing on "The U.S.-China Relationship: Economics and Security in Perspective," February 1-2, 2007 (FR Notice 2088 (January 17, 2007))

Dear Ms. Michels:

Thank you for providing us this opportunity to submit this statement in relation to the hearing cited above.

The American Apparel & Footwear Association (AAFA) is the national trade association representing the apparel and footwear industries, and their suppliers. Our members produce and market apparel and footwear throughout the United States and the world, including China. In short, our members make everywhere and sell everywhere.

I would like to take this opportunity to briefly describe the importance of China to the U.S. apparel and footwear industries and how our relationship with China benefits U.S. apparel and footwear firms, U.S. workers, U.S. consumers and, in turn, the U.S. economy. I will also discuss our concerns and hopes for this relationship in the future.

Our Industry – Then & Now

But first, a little background on our industries. Our industries have historically been among the most protected industries in the United States – subject to decades of stiff protection in the form of high tariffs and restrictive quotas (for apparel). Even today, U.S. apparel and footwear imports from China are still subject to high tariffs and, in the case of apparel, quotas.

Yet, this incredible protection failed to do the very thing it was supposed to do, protect the U.S. apparel and footwear manufacturing base. Today, more than 98 percent of all footwear and more than 90 percent of all apparel sold in the United States is imported. For comparison, in 1980, only one-half of all footwear and less than one-third of all apparel sold in the United States was imported.

Today, less than 630,000 people work in the manufacturing of apparel, textiles and shoes in the United States – a loss of over 1.6 million jobs, or almost three-quarters of the entire manufacturing workforce since 1974. Almost 1 million of those jobs have been lost in the last decade alone.

Despite this seemingly bleak picture, the U.S. apparel and footwear market is booming. Americans like their clothes, and their shoes, and it shows. U.S. consumers spent a record $350 billion on apparel and footwear last year, or an average of $120 for every man, woman and child in the United States. Even as energy prices skyrocketed last year, retail sales at clothing and footwear stores were 6.1 percent higher than in 2005. The bottom line is that despite whatever economic pressures face us, Americans still buy new things to wear. Americans, however, are picky about their shoes and clothes, they continually want an ever-wider variety of higher-quality shoes and clothes at lower prices – and our industry has had to respond.

U.S. footwear and apparel firms have responded to these challenges by transforming themselves from manufacturers into brands. Today's U.S. apparel and footwear "brands" are more lean and more competitive than ever – their goal is to provide the American consumer with what they want – the best brands at the best prices, while still making a profit.

And the result of this is that U.S. apparel and footwear firms are thriving, with many achieving profits last year – profits that go directly back into the U.S. economy and ensure a competitive industry.

Further, while the industry has lost over one million manufacturing jobs in the last decade, the industry has produced hundreds of thousands of good-paying new jobs for U.S. workers – not in manufacturing, but in such varied professions as design, research and development, marketing, distribution, sourcing, warehousing, management, administration and sales. Further, the industry directly supports another 1.5 million plus jobs at retail establishments throughout the United States.

The industry's transformation has directly benefited U.S. consumers – particularly hardworking lower- and middle-income American families – by lowering prices on one of the most basic staples every man, woman and child needs. As a result of the industry's transformation, apparel and footwear retail prices have declined some 10 percent since 1998, despite a 20 percent increase in overall retail prices during the same period – saving American families countless billions of dollars every year – money they pump back into the U.S. economy.

Thanks to these lower prices, American families today spend a smaller percentage of their income on shoes and clothes, a necessity for every American, and instead spend more elsewhere. According to the U.S. Department of Commerce's Bureau of Economic Analysis, the percentage of the average American family's Personal Consumption Expenditures (PCE) spent on clothes and shoes has dropped by almost one-half since 1977 – from 6.6 percent of total PCE in 1977 to less than 3.9 percent today. With consumer spending driving over 2/3 of our Gross Domestic Product (GDP), the decline in U.S. apparel and footwear prices has helped fuel the overall economy.

China's Relationship with the U.S. Apparel & Footwear Industry

The U.S. apparel and footwear industry could not have succeeded in transforming into the success that it has become today without the existence of China. Working for the most part with foreign-owned and privately-held factories in China, U.S. apparel and footwear firms have been able to give American consumers what they want – an ever-wider variety of higher-quality shoes and clothes at lower prices.

Today, this relationship is stronger than ever. U.S. footwear and apparel firms import over $30 billion worth of footwear and apparel from China. U.S. imports from China account for over 85 percent of all shoes and over 25 percent of clothes sold in the United States.

Opening the Chinese Market to U.S. Apparel and Footwear Brands
There Has Been Progress, but More Must be Done

U.S. footwear and apparel firms, however, recognize that 95 percent of the world's population lives outside the United States. Some of their fastest growing markets are no longer in the United States or Europe, but in China, or India or Brazil. U.S. apparel and footwear firms are now truly global – they buy and sell clothes and shoes all over the world. That is why AAFA's motto is – "We Dress the World."

That is why our industry was one of the biggest supporters of China entering the World Trade Organization (WTO), not just because of our relationship with China as a supplier to the U.S. market, but because we wanted to use WTO rules to open China – with the world's largest middle class of 200 million people and growing – to U.S. brands. Since China's WTO accession, our industry has worked closely with the U.S. government and the rest of the U.S. business community to ensure that China lives up to its commitment in opening up its distribution and retail sectors. Thanks to our efforts, China has largely lived up to those commitments, opening the doors to U.S. brands to sell into the vast Chinese market.

While U.S. brands have had some success in China because of these efforts, restrictions still exist in these sectors. We hope the Chinese fully live up to their commitments in these areas.

Moreover, we have been deeply disappointed with the progress made to date on China's efforts to improve its Intellectual Property Rights (IPR) enforcement. U.S. footwear and apparel brands have been subject to rampant counterfeiting in China, stalling our efforts to break into this important market.

This problem even affects us in our home market – the United States. Every year, clothes and shoes top the list of counterfeit items seized by U.S. Customs. We estimate that these seizures represent only a small fraction of the total amount of counterfeit shoes and clothes entering the U.S. market.

China must do more on IPR enforcement. While we continue to support the dialogue between the U.S. and Chinese governments on this subject, the Chinese must move beyond talk and take action. Otherwise, the U.S. government must take action.

Next Steps – the U.S. Apparel and Footwear Industry View

As we noted, China still has a long way to go in meeting its international obligations – as both a major economic power and as a major market for U.S. brands and U.S. products. We fully support the current administration's efforts to address these many issues through dialogue. As we also noted, however, our industry would support further actions in specific instances where dialogue continues to produce less than desired results.

I would, however, caution those who would propose certain "remedies" for the purpose of resolving many of these issues. First, many of the proposed "solutions" clearly violate U.S. obligations under international trade rules. While many might not be concerned about this, this violation is of critical concern to our industry. As I mentioned previously, U.S. apparel and footwear firms make and sell everywhere around the world, including selling clothes and shoes made in China into major markets like Europe, Brazil and India. Any action taken by the United States against China that violates international trade rules would not only be closely watched by these countries but quickly replicated, closing these important markets to U.S. brands

Second, many of these proposed "remedies" would impose significant penalties, in the form of punitive duties or other restrictions, on some or all U.S. imports from China. As I have already stated, virtually all clothes and shoes sold in the United States are imported, with a significant portion being imported from China. Similar situations exist for a multitude of other consumer products. If such "remedies" are imposed, those remedies would amount to huge new tax on hardworking American families – at a time when many of these families could least afford it.

The U.S. apparel and footwear industry recognizes that many important issues exist in the U.S.-China relationship – issues that personally affect U.S. apparel and footwear firms. However, as in the case of our industry, the relationship between the United States and China is one that is critically important to and very intertwined with the U.S. economy. Therefore, I urge policymakers to carefully consider all aspects of this vital and complicated relationship before setting new policy.

Thank you for your time and consideration in this matter.

Sincerely,

Kevin M. Burke

Kevin M. Burke
President & CEO